

Impressive order inflows to perk up growth...

About the stock: Techno Electric Engineering Company (TEEC) is one of the leading power-infrastructure companies engaged in three primary business segments; EPC (construction), renewable power generation (wind power) and public-private partnership (PPP) projects in transmission & distribution (T&D).

- **EPC Business:** Contributed ~92% to FY22 revenue, generated excellent RoCE of 50-75% over the past five years. **PPP projects business:** It is present in BOOT/BOOM transmission projects in PPP mode. **Wind Power:** TEEC owns ~130 MW of wind power generation capacity

Q1FY23 Results: TEEC reported a weak set of Q1FY23 numbers.

- Consolidated revenues came in at ₹ 173 crore, down 8.7% YoY impacted by weak execution in EPC segment
- EBITDA came in at ₹ 47.8 crore, down 13.4% YoY with margins at 27.6%, contracted by 151 bps YoY
- Consequently, PAT de-grew 21.1% YoY to ₹ 36 crore, impacted by lower other income

What should investors do? Strong pick-up in execution, sale of wind energy assets and foray into data centre business to drive strong financial performance, going ahead.

- We continue to remain positive and retain our **BUY** rating on the stock

Target Price and Valuation: We value TEEC at ₹ 385 i.e. 13x PE on FY24E.

Key triggers for future price performance:

- Entry into data centre, smart meters and FGD market and become significant EPC player over the next three to four years
- Improved revenue visibility, healthy balance sheet and cash balance of ₹ 1200 crore
- We expect revenue, EBITDA to grow at CAGR of ~25.8%, 29.9%, respectively, in FY22-24E

Alternate Stock Idea: We also like Thermax in our coverage.

- Recent broad based recovery in order inflows, strong order enquiry pipeline across industrial sectors likely to ensure decent order inflows, going forward
- BUY with target price of ₹ 2405



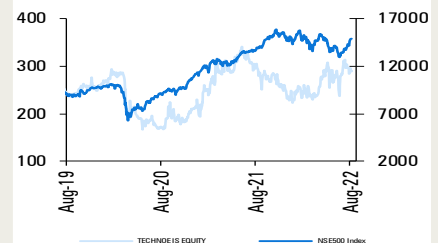
Particulars

Particular	Amount
Market Capitalization	₹ 3189 Crore
Total Debt (FY22)	₹ 0 Crore
Cash and Inv (FY21)	₹ 915 Crore
EV (FY21)	₹ 2642 Crore
52 week H/L (₹)	320 / 222
Equity capital	₹ 22.0 Crore
Face value (₹)	10.0

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	60.2	60.2	60.2	60.2
FII	1.3	1.2	1.2	1.4
DII	30.9	29.8	27.3	27.3
Others	7.7	8.8	11.3	11.1

Price Chart



Key risks

- High cash on balance sheet could drag return ratios, capital allocation
- Any delay in transmission capex, TBCB bidding could impact profit

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Key Financial Summary

(₹ Crore)*	FY20	FY21	FY22	5-Year CAGR (FY16-FY21)	FY23E	FY24E	2-Year CAGR (FY22-24E)
Revenue (₹ crore)	876.2	889.2	1,073.9	4.5%	1,367.8	1,700.2	25.8%
EBITDA (₹ crore)	216.2	216.1	222.2	7.3%	313.2	371.6	29.3%
EBITDA margin (%)	24.7	24.3	20.7		22.9	21.9	
Net Profit (₹ crore)	179.1	181.8	263.9	19.0%	280.2	325.5	11.1%
EPS (₹)	16.3	16.5	24.0		25.5	29.6	
P/E (x)	17.4	17.1	11.8		11.1	9.6	
Price / Book (x)	2.1	1.9	1.7		1.6	1.4	
EV/EBITDA (x)	14.6	14.6	15.2		11.1	8.7	
RoCE (%)	13.7	13.7	17.4		17.8	17.9	
RoE (%)	12.0	11.2	14.8		14.4	14.3	

Key takeaways of recent quarter & conference call highlights

Q1FY23 Results: Weak execution but impressive order inflows

- Techno Electric Engineering (TEEC) reported consolidated revenues at ₹ 173 crore, down 8.7% YoY and 43.8% QoQ owing to lower revenues in EPC segment. EPC and Energy (Wind Power) segment contributed ~82% and 18%, respectively. Q1FY23, EPC revenue de-grew 11% to ₹ 144.8 crore YoY and 52.4% QoQ. At the same time, energy revenue grew 13.8% to ₹ 30.9 crore YoY
- Absolute EBITDA came in at ₹ 47.8 crore, down 13.4% YoY due to higher commodity cost. Overall EBITDA margin came in at 27.6%, declining 151 bps YoY. EPC segment reported EBIT margins of 16.3% (vs. 19.6% in Q1FY22) and energy segment reported EBIT margin of 53.9% (vs. 48.9% in Q1FY22)
- Consequently, PAT came in at ₹ 36 crore, down 21.1% YoY impacted by lower other income

Q1FY23 Earnings Conference Call highlights

- Q1FY2 TEEC expects EPC segment revenue for FY23 to be at ~₹ 1200-1300 crore and expecting with a similar run rate of ₹ 300 – 400 crore each quarter. The management expects the company to double its revenue from EPC segment in the next three years and guided for ₹ 1500 -1600 crore in FY24 with margins likely to be at 12.5-13.5% level
- The company expects strong order inflows from data centre, transmission, FGD and smart meters over the next three years with order inflows of ₹ 3000 crore + for FY23 and another ₹ 1000-1500 crore of additional orders if the new Electricity Act is implemented by the government
- TEEC has won FGD orders worth ₹ 1450 crore and pricing of new FGD orders has also increased to ₹ 10 mn/MW vs ₹ 3-3.5 mn per MW earlier. The new orders have a PV clause and are booked with better margins. The management mentioned that CPSUs have been ordering till now and SEB and private players will follow
- The company foresees EPC opportunity at ₹ 20-25 crore per MW, of total capex of 40-45 crore per MW
- TEEC expects third party data centre industry to grow from 500 MW to 2GW to further 5GW in the coming years. The company is setting up 24 MW IT load data centre, has acquired land and has approvals in place. The company expects to commission Phase-1 by June 2023
- On Revamped Distribution Sector Scheme (RDSS) implementation, the government intends to spend ₹ 3 lakh crore over the next five years, TEEC is looking at a slice of that business, at least 1% of it over next five years i.e. opportunity worth ₹ 3000 crore

Exhibit 1: Variance Analysis

Year	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Income from Operation	173.0	189.5	(8.7)	307.6	(43.8)	Impacted by weak execution in EPC segment
Other Income	13.4	17.1	(21.5)	3.1	335.4	
Cost of materials consumed	97.7	115.0	(15.1)	191.8	(49.1)	
Power & Fuel	0.0	0.0	-	0.0	-	
Changes in inventories of	4.1	(1.1)	(459.6)	42.4	(90.4)	
Employee cost	8.6	8.3	4.4	8.3	3.9	
Other expenses	14.8	12.1	22.3	26.1	(43.2)	
EBITDA	47.8	55.2	(13.4)	39.0	22.5	
EBITDA Margin (%)	27.6	29.1	-151 bps	12.7	1495 bps	Margins impacted by commodity inflation
Depreciation	10.2	10.3	(0.6)	10.4	(1.9)	
Interest	1.4	1.8	(18.8)	1.0		
PBT	49.6	60.3	(17.8)	30.7	61.5	
Taxes	13.6	14.7	(7.4)	(6.4)	(312.8)	
PAT	36.0	45.6	(21.1)	37.1	(3.0)	
Segment Revenue	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	
EPC (Construction)	144.8	162.5	(10.9)	304.0	(52.4)	
% Contribution	82%	86%		99%		
Energy (Power)	30.9	27.1	13.8	3.5	774.6	
% Contribution	18%	14%		1%		

Source: Company, ICICI Direct Research

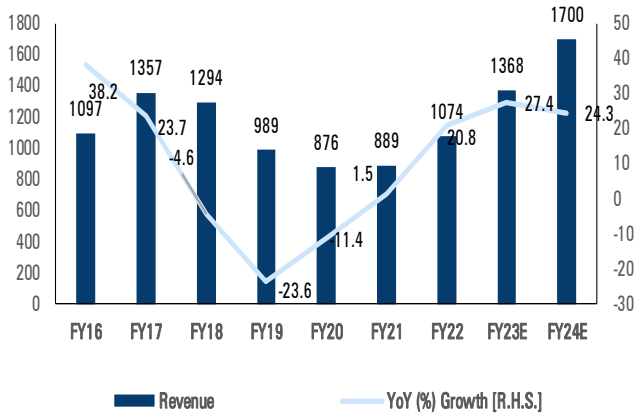
Exhibit 2: Change in estimates

	FY20	FY21	FY22	FY23E	FY24E
(₹ Crore)	Actual	Actual	Actual	New	New
Revenue	876	889	1,074	1,368	1,700
EBITDA	216	216	222	313	372
EBITDA Margin (%)	24.7	24.3	20.7	22.9	21.9
PAT	179	182	264	280	325
EPS (₹)	16.3	16.5	24.0	25.5	29.6

Source: Company, ICICI Direct Research

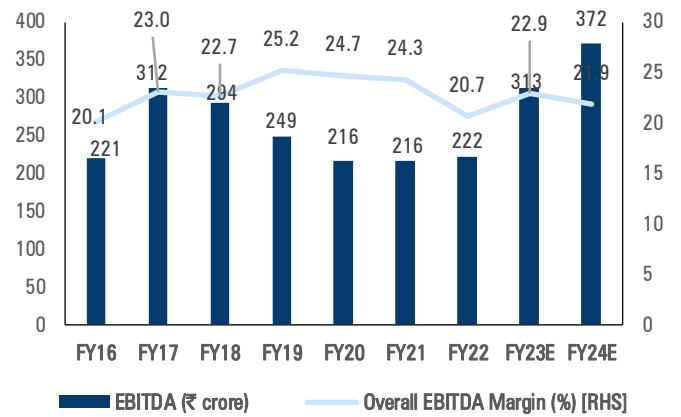
Financial story in charts:

Exhibit 15: Revenue trend...



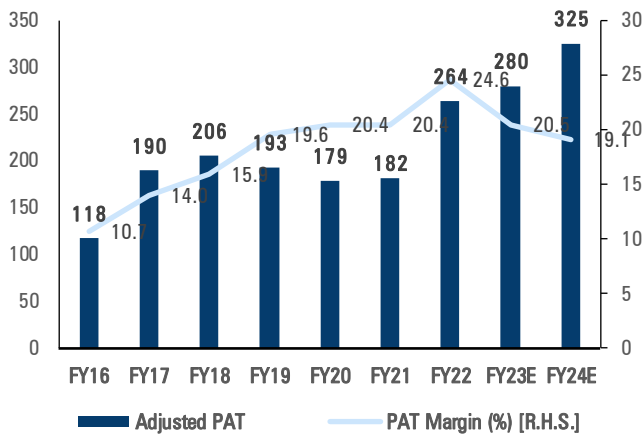
Source: ICICI Direct Research, Company

Exhibit 16: EBITDA and EBITDA margin trend



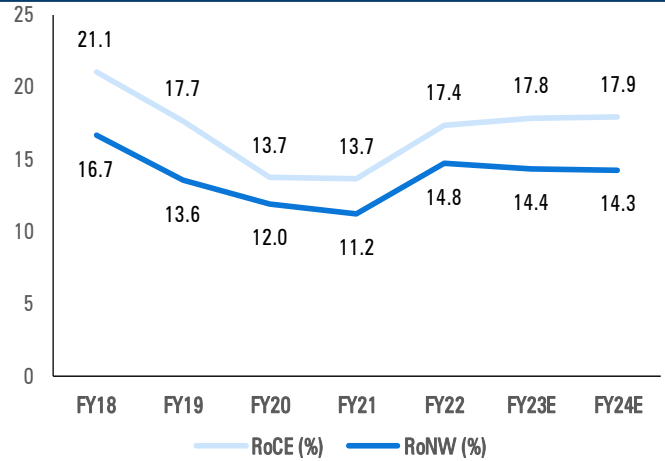
Source: ICICI Direct Research, Company

Exhibit 17: PAT and PAT margin (%) trend...



Source: Company, ICICI Direct Research

Exhibit 18: RoE, RoCE (%) trend...



Source: Company, ICICI Direct Research

Financial Summary (Consolidated)

Exhibit 18: Profit and loss statement				
₹ crore				
(₹ Crore)	FY21	FY22	FY23E	FY24E
Net Sales	889.2	1,073.9	1,367.8	1,700.2
Other Operating Income	-	-	-	-
Total Operating Income	889.2	1,073.9	1,367.8	1,700.2
% Growth	1.5	20.8	27.4	24.3
Other Income	66.9	150.8	101.3	104.0
Total Revenue	956.1	1,224.6	1,469.1	1,804.2
Cost of materials consumed	569.0	767.1	921.8	1,163.1
Purchase of stock-in-trade	-	-	-	-
Other Expenses	70.5	70.8	83.8	105.8
Total expenditure	673.2	851.7	1,054.6	1,328.6
EBITDA	216.1	222.2	313.2	371.6
% Growth	(0.0)	2.8	40.9	18.6
Interest	7.8	5.6	-	-
Depreciation	41.1	41.3	45.0	45.5
PBT	233.9	326.1	369.5	430.1
Tax	50.3	65.8	93.0	108.2
PAT	181.8	263.9	280.2	325.5
% Growth	1.5	45.2	6.2	16.2
EPS	16.5	24.0	25.5	29.6

Source: Company, ICICI Direct Research

Exhibit 19: Cash flow statement				
₹ crore				
(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	181.8	263.9	280.2	325.5
Depreciation	41.1	41.3	45.0	45.5
Interest	7.8	5.6	-	-
Other income	(66.9)	(150.8)	(101.3)	(104.0)
Prov for Taxation	50.3	65.8	93.0	108.2
Cash Flow before WC changes	214.2	225.8	316.8	375.2
Change in Working Capital	(119.4)	(16.7)	(3.2)	(172.6)
Taxes Paid	(48.1)	(58.8)	(93.0)	(108.2)
Cashflow from Operating Activities	46.8	150.3	220.6	94.4
(Purchase)/Sale of Fixed Assets	(0.1)	(42.8)	17.0	(62.4)
(Purchase)/Sale of Investments	(23.0)	(381.9)	(30.0)	(30.0)
Other Income	-	-	-	-
Cashflow from Investing Activities	(23.1)	(424.7)	(13.0)	(92.4)
Issue/(Repayment of Debt)	40.0	(40.0)	-	-
Changes in Minority Interest	(0.0)	-	-	-
Changes in Networth	(62.1)	(92.7)	(119.2)	1.0
Interest	(7.8)	(5.6)	-	-
Others	(22.7)	-	-	-
Cashflow from Financing Activities	(52.6)	(138.3)	(119.2)	1.0
Changes in Cash	38.0	(62.7)	189.7	107.0
Opening Cash/Cash Equivalent	42.8	80.8	18.1	207.8
Closing Cash/ Cash Equivalent	80.8	18.1	207.8	314.8

Source: Company, ICICI Direct Research

Exhibit 20: Balance sheet				
₹ crore				
(₹ Crore)	FY21	FY22	FY23E	FY24E
Share Capital	22.0	22.0	22.0	22.0
Reserves & Surplus	1,594.2	1,765.4	1,926.4	2,252.8
Networth	1,616.2	1,787.4	1,948.4	2,274.8
Total Debt	40.0	-	-	-
Deferred tax liability (asset)	115.1	122.1	122.1	122.1
Total Liabilities	1,812.0	2,040.5	2,234.6	2,566.9
Gross Block	707.5	716.3	725.2	734.1
Acc: Depreciation	244.3	285.5	322.5	314.5
Net Block	465.7	467.2	405.2	422.1
Capital WIP	-	-	-	-
Investments/ Investment	713.8	1,095.7	1,125.7	1,155.7
Inventory	6.2	27.1	9.4	11.6
Sundry debtors	530.2	584.0	711.3	884.1
Cash and bank balances	80.8	18.1	207.8	314.8
Loans and advances	100.0	94.9	95.7	102.0
Other Current Assets	207.0	204.9	232.5	306.0
Total current Assets	969.8	959.4	1,297.7	1,669.6
CL& Prov.	366.5	418.9	562.2	652.3
Net Current Assets	579.3	533.3	726.3	1,005.8
Total Assets	1,812.0	2,239.8	2,339.8	2,683.3

Source: Company, ICICI Direct Research

Exhibit 21: Key ratios				
₹ crore				
(Year-end March)	FY21	FY22	FY23E	FY24E
EPS	16.5	24.0	25.5	29.6
Cash EPS	20.3	27.7	29.6	33.7
BV	146.9	162.5	177.1	206.8
DPS	6.0	7.0	9.0	-
Cash Per Share	22.2	26.0	29.3	28.6
EBITDA Margin	24.3	20.7	22.9	21.9
PBT / Net Sales	19.7	16.9	19.6	19.2
PAT Margin	20.4	24.6	20.5	19.1
Inventory days	2.6	9.2	2.5	2.5
Debtor days	217.6	198.5	189.8	189.8
Creditor days	150.3	142.3	150.0	140.0
RoE	11.2	14.8	14.4	14.3
RoCE	13.7	17.4	17.8	17.9
RoIC	10.6	9.0	13.3	14.6
P/E	17.1	11.8	11.1	9.6
EV / EBITDA	14.6	14.3	9.5	7.7
EV / Net Sales	3.5	3.0	2.2	1.7
Market Cap / Sales	3.6	3.0	2.3	1.9
Price to Book Value	1.9	1.7	1.6	1.4
Debt/EBITDA	0.2	0.0	0.0	0.0
Net Debt / Equity	0.0	0.0	-0.1	-0.1
Current Ratio	2.3	2.2	1.9	2.0
Quick Ratio	2.3	2.1	1.8	2.0

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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